

**QUARTERLY TASK ORDER  
PROGRESS AND COST  
REPORT**

**APRIL TO JUNE 2005**

**COMPETITIVE FINANCIAL  
MARKETS – LAUNCHING DEBT  
INSTRUMENTS (SUPPORT FOR  
SOUTH EAST EUROPE  
MORTGAGE FINANCE  
NETWORK)**

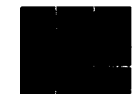
Prepared for



**USAID**  
FROM THE AMERICAN PEOPLE

Prepared by

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*The Urban Institute*



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August 2005  
UI Project 06967-012

## **QUARTERLY TASK ORDER PROGRESS AND COST REPORT**

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### **Competitive Financial Markets - Launching Debt Instruments Support for South East Europe Mortgage Finance Network.**

<b>Task Order No.:</b>	LAG-1-00-99-00036-00
<b>Date of Issuance:</b>	August 29, 2003
<b>Amount Obligated Under Task Order:</b>	\$ 556,430
<b>Total Potential Task Order Amount:</b>	\$ 599,944
<b>Dollars Expended To-date:</b>	\$ 363,452

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#### **Task Order Description:**

The objective of this task order is to support the Southeast Europe Mortgage Finance Network (SEEMFN) in its goals to promote the harmonization of mortgage laws, policies and procedures in the region based on international standards and best practices. This will promote faster primary market development as well as greater issuance of mortgage securities, which are in demand by institutional investors and pension funds. The SEEMFN is a public private partnership of local and foreign mortgage finance practitioners, donors and international financial institutions working together to promote better domestic mortgage markets and greater integration of the region's financial markets. In so doing, it is designed to support and complement the bilateral efforts of USAID missions in the region to support mortgage market development.

Support under this task order will consist primarily of:

- (a) providing mortgage market and legal experts to do cross country analysis on a variety of issues critical to accelerating the development of mortgage finance and securitization;
- (b) updating and maintenance of the website [www.ceemortgagefinance.org](http://www.ceemortgagefinance.org);
- (c) supporting semi-annual meetings organized by members of the SEEMFN;
- (d) developing a protocol for collecting and displaying mortgage information across the SEE countries and a network of appropriate persons in each nation to assist in supplying the data; and
- (e) supporting semi-annual meetings organized by members of the SEEMFN.

As required by Section F.12 of the Contract, a description of the progress under this task order during this quarter is set out below.

## **I. HIGHLIGHTS**

This project is a follow-on to the previous project – Developing Secondary Mortgage Markets Southeast Europe – that took place during 2002-2003. This project culminated in the development of a Working Group dedicated to improving mortgage finance in Southeast Europe (SEE), now called the SEEMFN, the Southeast Europe Mortgage Finance Network. Following a major conference in Sofia in February 2003 on mortgage issues in SEE and worldwide, the first SEEMFN meeting was held in Sofia in May 2003. This first meeting established an agenda for future studies and analyses, and their priorities. These included a critique of the legal framework for mortgage finance in SEE, a study of the potential for standardization, and plans for future Working Group meetings. The second SEEMFN meeting was held in Bucharest on December 2, 2003, and featured a discussion of the detailed legal analysis of the primary and secondary mortgage markets in Croatia, Romania, and Bulgaria. The third SEEMFN meeting was held in Split, Croatia in May 2004, and featured a discussion of the EBRD Minimum Standards Manual and the formation of a credit bureau in Croatia.

Activities under the project in Q2 2005 include the following:

- The fourth SEEMFN Meeting was held in Sofia on February 22-23, 2005. As discussed below, discussion initiated at this meeting concerning the format and purpose of subsequent SEE conference activities.
- A major outreach to solicit opinions about future events was undertaken to determine the shape of the next conference. Meetings and/or phone conferences were held by Jean Lange and Sally Merrill with a number of people, including Pam Hedstrom (formerly head of the Romania Mortgage Finance Roundtable), Bonnie Hewson (Newline Capital), Tamara Lansky (IFC delegate to the SEEMFN), Carmen Retegan (CEO of Domenia Finance), and Ion Bejan (Ministry of Housing, Romania).
- Sally Merrill subsequently prepared a draft agenda and sent it to Jean Lange for comment and then to selected individuals from the list above. This is attached as Annex 1. Lengthy discussions have since been held with Bonnie Hewson about assisting with implementation.

## **II. PROGRESS OF MAJOR ACTIVITIES**

### **Extension of the SEEMFN project through Spring 2006 and Planning for Greater Private Sector Participation.**

The SEEMFN Project has been extended through Spring 2006. It had been decided at Split to hold the 2005/2006 meeting in Bucharest.

The SEEMFN Working Group was always intended to have a large representation of private sector mortgage practitioners. The project has met with some success, especially beginning with the kick-off

Conference and the subsequent formation of the SEE Mortgage Finance Network Working Group. However, the number of major lenders and other private sector practitioners was not as large as desired during the February 2005 meeting. In this regard, the meeting's attendees began a discussion of means of increasing private sector participation, including both the modality of the gathering – i.e. a large conference as opposed to a small working group – and the topics that might be of most interest. This rethinking is currently underway, and includes the possibility of inviting participants from other areas, such as Ukraine, Turkey, and the Baltics.

As noted above, a memo and draft agenda (attached as Annex 1) were prepared in order to solidify conference ideas obtained to-date, and to solicit very specific suggestions for topics, speakers, and audiences. The table below, taken from this memo, summarizes the basic approach.

<b>FINAL SEEMFN CONFERENCE</b>	
Date	Winter/Spring 2006 (trying to avoid the crunch of fall 2005 mortgage conferences)
Venue	Romania: Bucharest or near-by resort (can we plan on the mountains in winter?)
Approach	A “big” conference approach (modeled after our Sofia Conference beginning)
Goal	Maximize participation and attendance of practitioners (lenders, insurance, others); leave a policy “legacy” on the table for practitioners to push for and address
Theme	“You’ve come a long way baby”...since Sofia....but many efficiency, risk management, and funding issues remain to be addressed
Conference Title	A contest will be held!!!
Duration	1.5 – 2.0 days (two if held at a winter resort, leaving some free time?)

### **III. DELIVERABLES AND REPORTS**

No formal deliverables were expected. The memo in Annex 1 is the major deliverable for Q2.

### **IV. PROBLEMS OR DELAYS AFFECTING THE TASK ORDER PERFORMANCE**

Please refer to the discussion above regarding increasing the participation of the private sector and the review of meeting topics, venue, format, and invitees.

### **V. WORK PLANNED FOR NEXT REPORTING PERIOD**

- Propose and discuss topics, format, venue, and invitees for the SEEMFN meeting to be held in Bucharest, as discussed above.
- Prepare a second draft of the agenda and proposed speakers, topics, and audience
- Continue to update the SEEMFN Website

### **VI. SPECIFIC ACTION REQUESTED**

None at this time. However, in Q3, the Urban Institute will work with Jean Lange to adjust the SOW for this project. At least two new decisions have been taken: a major change is to focus our resources on a major conference in Bucharest, and abandon the SEE MFN Working Group small seminars. A minor change is to not work on the regional database, as the central banks in the key SEE countries are now supplying data on mortgage lending.

## ANNEX 1: Memorandum to selected SEEMFN colleagues.

May 2005

Dear SEEMFN Colleagues,

We started the mortgage finance ball rolling in Sofia in 2003. Since then, conferences addressing mortgage market issues have multiplied every year. The commercial conference makers have had a heyday with this theme, and it continues. So we have done part of our job in attracting the private sector, although not in quite the way we expected. Our small seminar approach to the SEEMFN Working Group meetings no longer appears to draw the interest of the practitioners to the extent that we had hoped. Therefore, after conferring with a number of you – and thanks once again for all the excellent advice we have gotten – we have tentatively decided to switch back to a big conference format for a grand finale to this SEE effort. Tentative details below, as well as a list of topics; these would be transformed into an agenda once we agree on the thrust. The topics and approach are drawn in part from advice from participants at the February Sofia SEEMFN meeting, and also more recently from Bonnie Hewson, Pam Hedstrom, Ion Bejan, and Tamara Lansky. *Comments please!*

Best regards,  
Sally and Jean

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Major Themes	Topics	Presenters
<b>Better Credit Risk Management through Data and Analysis</b>		
Analyzing Portfolios Industry-wide	Better Portfolio Information	Polish Banks Association
How to model credit risk	Credit Scoring	Fair Isaacs, Experien, etc.
What’s your “true” LTV?	Importance of good Valuation: methodologies, ethics, and organizations	Mark Bates? , TEGOVA?
Verifying your valuations	The Real Estate Database and Price Modeling	Polish Banks Association
Streamlining Origination	Balancing product quality with rapid asset growth	A Romanian banker?
<b>EXPANDING YOUR MARKET VIA BETTER AFFORDABILITY</b>		
Mortgage Guarantee Insurance - help expand your market	Reach young professionals and first-time buyers	AIG or Genworth
	Examples from emerging markets	Sally Merrill
<b>UNDERWRITING WITH OTHER INSURANCE PRODUCTS</b>		
Disaster Insurance	Designs for disaster insurance	Someone from Turkey
Insurance packages: mortgage life, property, and disaster	Pricing the packages	Romanian insurer (they had a unique looking pricing scheme)

insurance		for combinations)
<b>EXPANDING YOUR MORTGAGE LOAN PRODUCTS</b>		
Different products for different risk profiles	Risk-Based Pricing of Loans	Michael Lea
New product development for CEE	Home improvement, secondary mortgage, SME/mortgage loans	Carmen Retegan
<b>HARNESSING TECHNOLOGY</b>		
What about automation?	Benefits and risks of more online processing	Igor Kouzine, Delta Credit
<b>SECONDARY MARKET FUNDING OF MORTGAGE LENDING</b>		
Small market funding can work!	Baltic Securitization analysis	Bonnie Hewson
Non-bank models	Mortgage Banking	Carmen Retegan
	Bulgarian bonds	Bulgarian banker
What information will rating agencies want, and why?	Expanding your information set	Bonnie Hewson
Funding success in other regions	Latin American innovations	Michael Lea
What could a secondary market agency do?	Examples from Turkey, Hong Kong, Malaysia, and Columbia	Pam Lamoreaux
<b>RISK MANAGEMENT ISSUES IN SECONDARY MARKET FUNDING</b>		
Risks in Secondary Market Funding	Pipeline risk, pre-payment risk, hedging for foreign currency risk, investor risk	Pam Hedstrom
<b>WHAT ABOUT THE "BUY-SIDE": PENSION FUNDS, INSURANCE COMPANIES, BANKS, AND OTHERS</b>		
Pension Funds	What are they looking for?	Bulgarian fund?
<b>REGULATORY FRAMEWORK: IMPORTANT ISSUES ON THE HORIZON</b>		
What about Basle II?	Bank Actions after Basle II and regulation of mortgage portfolios	Sacha Polverini
Mortgage Insurance and Basle II	How MI is in line with Basel II	Sacha Polverini
Regulating mortgage portfolios	Special status as portfolios grow	Romanian central banker

**Themes not dealt with but with potential for this:**

Underwriting and standardization: Guidelines from the EBRD Manual

IT: automation and standardization in process

European variations in covered bonds

Mortgage brokers

Credit bureaus

The importance of a strong bankers association, with special group for mortgage finance

**Next steps. Everyone please!!!!**

Critique topics:

Suggest speakers – is this the right mix of foreign and local?

Any suggestions on how to market, how to get the lenders and insurers to attend

Venue, dates, etc. etc. etc.